11 August 2020

SDL plc
("SDL" or the "Group")

Half Year results for the six months ended 30 June 2020

Successfully executed business continuity plan delivered solid results

SDL plc (LSE: SDL), the intelligent language and content company, today announces its half year results for the six months ended 30 June 2020.

Financial Highlights

Unaudited Results	**1H20**	1H19	Change	Change at constant currency
Six months to 30 June	**£m**	£m		
Revenue	**180.7**	182.5	(1%)	(2%)
Operating profit	**13.4**	11.9	+13%	+3%
Adjusted operating profit[1]	**16.3**	16.1	+1%	(6%)
Profit before tax	**11.7**	10.9	+7%	(1%)
Basic earnings per share	**11.2p**	8.9p	+26%	
Diluted earnings per share	**11.1p**	8.7p	+28%	
Adjusted diluted earnings per share[2]	**11.7p**	12.3p	(5%)	

[1] Adjusted operating profit: Operating profit before amortisation of acquired intangibles and exceptional items (as reconciled on the income statement)
[2] Adjusted earnings: Profit after tax before the impact of exceptional items and amortisation of acquired intangibles (as reconciled in note 7)

Highlights

- Business continuity plans successfully executed in response to COVID-19, enabling all employees to work from home safely and remain productive. The substantial majority of employees continue to work remotely. Focus continues to be on the protection and wellbeing of employees, customers and supply chain
- Sales mix shift as a result of COVID-19:
    - Stronger Language Services revenues in sectors such as corporate communications and Life Sciences offsetting weaker areas such as Marketing Solutions, travel, leisure, manufacturing and automotive
    - Technology sales conversion in line with expectations, with some softness in Translation Productivity offset by strong growth (46%) in Machine Translation
- Group adjusted operating profit increased 1% to £16.3m (1H19: £16.1m)
- Language Services revenues declined 2% but gross margin improved to 43.5% (1H19: 42.1%), reflecting the positive impact of applying a range of delivery model improvements. Excluding Marketing Solutions, which was adversely impacted by COVID-19, Language Services revenues increased by 2% from £117.4m to £120.1m

- Language Technologies revenues on par with last year. Content Technologies revenues up 2% on the prior year, with a number of new customer wins in H1
- On track to deliver cost reductions against budget of £8m, as referred to in the 2019 full year results. Business operations carefully managed during this challenging environment with no staff furloughed
- Operating cash conversion of 144% (1H19: 60%), benefiting from improved cash management and timing of customer cash receipts
- Liquidity at 30 June 2020 of £98m, £35m in cash and £63m available under revolving credit facility. Net cash currently stands at c. £45m
- Continued strong innovation activity across the technology and solutions portfolio. Innovative "SLATE" smart translation platform launched in first half; SDL Trados Live launched post period; and launch of SDL Tridion Sites 9.5 planned for the second half of year
- Expanded the customer key account programme and sales leadership skill-set and re-organised the global marketing function to strengthen alignment with product management and to drive SDL's digital go-to-market strategy

Outlook

- Customer activity increasingly stabilised in May and June, with some signs of more positive momentum beginning to build
- SDL has a good pipeline for the second half, which traditionally is its stronger period, but with a higher degree of uncertainty than in normal years and the Group remains alert to risks to customer spending and delays to sales cycles and decision-making
- The Board continues to assess the appropriate time to reinstate dividends after its decision to suspend them in April 2020 and will reconsider reinstatement alongside the full year results

Adolfo Hernandez, CEO of SDL plc, said:

"In challenging circumstances, we are pleased with the Group's performance in the first half of the year. Crucially, we were able to enact our business continuity plans swiftly, moving the entire global workforce to working-from-home over a matter of weeks. As a result, there was no material disruption in our ability to service customers nor to our productivity. SDL remains operationally resilient and well-capitalised, and its core strategic plans remain on track. Looking to the second half, which is traditionally our stronger period, although our pipeline is good, COVID-19 continues to present a risk to trading patterns and software sales cycles. However, we believe that the Group is positioned to take advantage of the expected recovery in the global economy post COVID-19."

Enquiries

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Analyst Presentation

Adolfo Hernandez, Chief Executive Officer, and Xenia Walters, Chief Financial Officer, will be holding a conference call for analysts and investors this morning at 9.00am BST. For dial-in details, please contact Elliot Fradd at Luther Pendragon at elliotfradd@luther.co.uk

About SDL

SDL (LSE: SDL) is the intelligent language and content company. Our purpose is to enable global understanding, allowing organizations to communicate with their audiences worldwide, whatever the language, channel or touchpoint. We work with over 4,500 enterprise customers including 90 of the world's top brands and the majority of the largest companies in our target sectors. We help our customers overcome their content challenges of volume, velocity, quality, fragmentation, compliance and understanding through our unique combination of language services, language technologies and content technologies.

Operational review

The first half was defined by unpredictable market conditions as a result of the COVID-19 outbreak. As a result of the Group's investments in IT infrastructure made in recent years, as well as the rapid response to roll out its business continuity strategy globally, SDL was able to continue to service its customers with minimal disruption and the Group's results demonstrate that customer activity levels remained broadly similar to last year. While the mix of business shifted between customers and segments, SDL's broad revenue base, including a significant proportion of large enterprise customers, combined with low exposure to some of the hardest hit sectors, contributed to a relatively stable revenue performance overall.

SDL operational response to COVID-19

As regions and countries went into lockdown throughout January to March, SDL rolled out its business continuity strategy globally, and remained fully operational throughout the period. The ability to move 4,500 employees to home-working was testament to the investments in IT infrastructure made in recent years, but also thanks to an incredible response from SDL's teams. Although some colleagues have voluntarily returned to offices in certain locations, the majority are expected to continue working from home throughout the remainder of 2020. The Group has modified its offices to keep employees safe and to comply with all social distancing and local regulatory requirements.

SDL's sales teams have adapted quickly to the new selling landscape. SDL's strategy has been to increase focus on stable or growing segments of the market, cross-selling and account development, and fast on-boarding of new wins, whilst also continuing to support those customers with tightened budgets with cost-saving approaches or new delivery models, including Business Process Outsourcing (BPO) to enable customers to fill their resourcing gaps. A highly customer-centric approach has been more important than ever and has borne fruit in very positive customer feedback about SDL's delivery during this period.

The commercial team structure was adapted to make it more integrated and leaner, with shorter reporting lines to enable faster decision-making whilst not to the detriment of control resilience. As part of the sales evolution programme, the Group has made improvements to processes, tools and training to help sales teams move faster and focus on the right opportunities. Although, like all companies, there is still plenty to be learnt about remote selling models, the shift to more online sales, marketing and events has been broadly successful.

Employee wellbeing has been a major focus in the first half and significant efforts have been made to support colleagues in as many ways possible. The employee survey conducted in May-June provided feedback that 86% of employees feel supported by SDL.

Strategy execution update

Despite the significant operational response required to adapt to COVID-19, SDL has continued to execute its core strategic programmes at pace in the first half. Indeed, there has been strong alignment between the strategic initiatives in progress and the requirements of the new environment, from the evolution of the go-to-market strategy to product innovation and operational efficiency programmes.

SDL's product teams continued to deliver significant progress in the first half and the innovation engine of the Group is now firing. The 46% sales growth in Machine Translation was a notable highlight of the period, underlining one of the important market shifts underway in the industry. Having released SDL Language Cloud last year, SDL is gaining good traction with its Translation Management System offering and, furthermore, delivered two major product releases powered by Language Cloud: SLATE and SDL Trados Studio 2021. With an increased acceleration in cloud adoption and SDL's cloud portfolio, cloud operations and infrastructure were further strengthened in the period. Within the Content Technologies segment, Tridion Sites 9.5 is due for release in the second half. SDL has also begun to review options to accelerate development of its Contenta Publishing Suite to meet identified emerging market opportunities.

In addition to the cost controls described above, SDL has continued its long-term operational efficiency programmes, substantially focused on the automation of Language Services. These actions have enabled SDL to meet changing customer demands for higher velocity, small packet translation work, as well as increase gross margin in the period despite slightly lower revenue. A further development has been understanding the impact of working from home on the Group's operational capability and workforce. Although face-to-face collaboration remains important, it is the Group's view that a substantially larger proportion of its workforce can work from home in future – either full time or part time. (Approximately 5% of SDL employees worked from home prior to COVID-19). As a result, SDL has initiated a future real estate plan that will right-size the Group property portfolio over the next five years. The real estate plan is expected to result in a £3m to £4m net annual cost saving by the end of 2025.

Market outlook and pipeline

SDL believes its reputation as a supplier is likely to have been strengthened through its proven ability to deliver reliably throughout the pandemic. Several of the key trends that SDL seeks to address are also likely to accelerate, including adoption of Machine Translation, cloud-based technologies, intelligent processes (smart workflows, continuous localisation) and pre-packaged solutions.

Customer activity increasingly stabilised in May and June, with some signs of more positive momentum. SDL has a good pipeline for the second half, particularly in its stronger sectors of High Tech and Life Sciences. However, SDL remains alert to the risks of a second wave impacting customer spending and causing delays to sales cycles and decision-making, particularly with regard to higher margin software sales. Longer term, it is the Group's view that the market opportunity for SDL's products and services remains attractive.

Although financial progress against the long-term plan of achieving 15% adjusted operating margins will inevitably be impacted in the current year, SDL remains confident in its strategy and its ability to deliver its long-term financial goals once markets stabilise further.

Segment performance and review

SDL helps customers create, translate and deliver content globally, at scale, on time and at the right quality, by deploying market-leading services, technologies and solutions.

	Language Services		**Language Technologies**		**Content Technologies**	
	1H20 £m	1H19 £m	**1H20 £m**	1H19 £m	**1H20 £m**	1H19 £m
Revenue	125.9	128.4	25.7	25.6	29.1	28.5
Gross Profit	54.7	54.0	19.6	20.0	20.1	20.0
Administrative Expenses	(43.7)	(42.0)	(14.7)	(14.8)	(13.5)	(12.8)
Operating Profit (note 2)	11.0	12.0	4.9	5.2	6.6	7.2
Gross Profit (%)	43.5%	42.1%	76.3%	78.1%	69.1%	70.2%
Operating Profit (%)	8.7%	9.3%	18.9%	20.5%	22.7%	25.1%

Language Services

Language Services revenues reduced 2% in the period to £125.9m (1H19: £128.4m). Gross profit improved to £54.7m, at a margin of 43.5%, reflecting a range of delivery model improvement programmes (1H19: £54.0m; 42.1%). Adjusted operating profit was £11.0m (1H19: £12.0m) as the Group incurred business continuity costs for the language services organisation as a result of COVID-19.

Language Services Sales Performance

The Group's Regulated Industries practice (Financial Services, Life Sciences and Legal) increased to £42.2m (1H19: £41.0m) and Commercial Enterprise (non-regulated) increased to £77.9m (1H19: £76.4m). Marketing Solutions revenue decreased to £5.8m (1H19: £11.0m).

Volumes saw a shift in mix towards healthcare, online retail, e-learning and corporate communications. In the period, SDL was delighted to renew its master services agreement with its second largest customer, which operates in the life sciences sector, for a further three years. Conversely, activity reduced in the hospitality and leisure sectors and there was greater unpredictability in manufacturing and, to a lesser extent, automotive sectors. Some delays were seen in projects related to financial reporting, M&A transactions and litigation, although there are now signs of a return in activity.

Lockdown activities impacted monthly seasonal dynamics, with some timelines becoming more extended or events cancelled, offset by large peaks of activity in March, as companies prepared for lockdown and accelerated some programmes. SDL has seen some normalisation in activity patterns through May and June and still expects the second half for Language Services to be the seasonally stronger period.

Language Services Operational Efficiency

In response to the pandemic, SDL was able to move the bulk of the organisation to a work-from-home model in under a week. The transformative work improving internal assets in recent years enabled these to be accessed securely from anywhere in the world using a simple browser, significantly reducing the complexity of working from home. As a result, there was no significant degradation in on-time delivery or quality to clients.

The Helix infrastructure, which is already cloud-based, also supported this distributed way of working, and saw the highest volume of addressable clients to date, with the overall addressable volume rising to 90% by the end of the period. A further 66 customers were on-boarded to Helix, with 77% of all addressable customers having more than 95% of their volume managed through Helix. An increasing number of jobs now go straight to translation without human intervention, providing quicker and more effective delivery to customers.

A key feature of the first half was an acceleration of required turnaround times and smaller per-job volumes, as customers sought to reach their audiences faster and more regularly. SDL saw a significant increase in ultra-fast turnaround work and 35% of all jobs were below 100 words. Quick turn-around time workflows were implemented for urgent requests for a number of large enterprises. SDL's investments in automation have been critical to being able to meet this new pattern.

In order to continue to drive efficiencies in managing these jobs, additional automated functions were added to Helix to streamline project financial tracking and integrate SDL Trados GroupShare, reducing administrative effort in the language offices. SDL's first clients supported by Language Cloud have also been integrated into Helix to provide a seamless flow from their organisation through to the Group's Translation Services and back. Linguistic Productive Utilisation was maintained at 67%.

In the second half, the Group plans to focus on improving vendor experience with updates to the WorkZone portal. In addition, SDL continues to expand the Helix managed workflows to cover more of its technical delivery teams and to integrate Language Cloud further.

In addition, during the first half, a significant proportion of the translation work of the acquired DLS business was moved to in-house production. At the end of June, 80% of addressable regulated industries content was insourced, with a positive impact on external cost of sales for a partial period in the half and the full programme (100% insourcing of the addressable volumes) is expected to be concluded in the second half of the year.

Language Technologies

Language Technologies revenue was stable at £25.7m (1H19: £25.6m). Gross profit was £19.6m (1H19: £20.0m) and adjusted operating profit was slightly down at £4.9m (1H19: £5.2m) as a result of the reduction in gross profit. Machine Translation revenue grew by 46% year-on-year, whilst Translation Management System revenue was down 1% and Translation Productivity revenue contracted 14%. However, pre-sales of the new Trados product were strong ahead of the second half launch.

SDL Language Cloud

One of the key design goals of SDL Language Cloud is that it evolves to be a platform on which a range of software language technology applications and solutions can be built. In the first half of 2020, SDL not only continued to build out the capability of SDL Language Cloud TMS (Translation Management System) but the Group also released two new products – SLATE and SDL Trados Live Team – both 'powered by' SDL Language Cloud. Both of these products were developed in a relatively short timeframe and their release acts as a proof-point for the platform credentials of SDL Language Cloud. A further advantage of this approach ensures that all products are developed under a single technology stack, meaning that SDL's platform will provide a straightforward upsell to a more sophisticated product as a client's maturity grows in terms of technology need.

The continuous releases associated with SDL Language Cloud also facilitates an agile approach to releasing innovation into the products. Innovations of note in the first half of 2020 include:

- Building the foundation for online/offline working where translators have the ability and flexibility to work on projects stored in the cloud in either the Online Editor (web browser based) or SDL Trados Studio (desktop) translation environments.
- The introduction of AI technology to help project managers save time by automatically analysing content and suggesting translators suitable for that content.

SDL Language Cloud TMS will continue to evolve in sophistication and flexibility around the areas of reporting, translation quality assessment and workflow design. Not only will this provide feature parity with existing SDL TMS offerings, allowing clients to migrate from SDL on-premise products to the SDL Language Cloud products, it will also provide the framework for AI technology to introduce more automation to the client solutions, such as automating some of the translation quality assessment process and automating the selection of workflows for specific content.

SDL continues to see a broader acceptance of cloud technology amongst its customer base. Clients that would previously only consider hosting SDL technology products behind their own firewall are now willing to have SDL host those same products for them. With the release of SDL Language Cloud, in addition to SDL hosting, clients are starting to see the benefits of the continual release nature of cloud products and the ease with which they can always be on the latest version of the product.

SDL Trados

The first half was commercially challenging, with tough trading conditions, particularly in China, Japan and some markets in EMEA. Nonetheless the new products are starting to generate revenue streams that offset the difficult market backdrop.

In the first half, SDL launched SDL Trados Live Team, a cloud-based collaboration solution for translation departments and translation agencies. In July, SDL released SDL Trados Studio 2021, which combines the leading SDL Trados Studio with the cloud capabilities of SDL Trados Live to drive flexibility and productivity for users. The pre-launch phase saw strong uptake in upgrades. This is a major new release of SDL's leading translation technology product and is significant for two main reasons:

- It introduces a new subscription-based payment option to the existing perpetual licence payment options.
- It allows users of SDL Trados Studio 2021 to create, store and work on projects in the cloud via a native and seamless integration with SDL Language Cloud.

Machine Translation

Sales of Machine Translation grew strongly in the period, with continued growth across Government, Airline & Defence and enterprise sectors across all regions. New OEM deals were struck with Creative Radical and Reynen Court in the legal sector, which has already led to a first deal with a leading law firm. Positive trends supporting this growth include the increasing volume of content to be translated, a focus on security and data privacy, and customer reassessment of Machine Translation as an option in the localisation mix as a result of the economic shock and business disruption caused by the pandemic.

During the first half, the cadence of releases on the Cloud and Edge platforms continued, and improvements were made to support increasing traffic and auto-scaling for variable traffic patterns, and constant improvements to existing Neural MT 2.0 language models for better input handling and addressing new domains. A secondary MT Cloud instance was deployed in the US to better serve the Group's NASA customers and reduce latency. In the second half, additional language and 'smart' features will be developed.

Content Technologies

Content Technologies revenue was broadly flat at £29.1m (1H19: £28.5m). Gross profit was £20.1m (1H19: £20.0m). Adjusted operating profit was £6.6m (1H19: £7.2m) as a result of increased R&D spend on the release of Tridion Docs and the future release of Tridion Sites.

SDL Tridion generated some significant licensing wins in the first half for both Tridion Sites and Docs, and a number of major renewals were secured. SDL Tridion is increasingly focusing on differentiating within the content management space by concentrating on the area of digital experience plus knowledge management, a move that has resonated well with industry analysts and customers. In the first half, SDL released "Collective Spaces", a collaborative authoring tool which has been adopted by several key customers. The partner ecosystem was further built out at an accelerated pace, including a strategic partnership with Aprimo. Adoption of the Tridion Cloud content-as-a-service offering also accelerated amongst existing on-premise customers. In the second half, SDL will release Tridion Sites 9.5, which will offer a completely new intuitive user experience to increase usability and user productivity.

Within the Contenta Publishing Suite, SDL released XPP 9.4 as part of a continued progression to cloud and including enhanced user experience. In the second half, SDL will introduce new features to its Contenta S1000D product. Contenta continued to build its strong foothold and expansion with the US Department of Defense agencies and contractors.

Financial review

This report provides alternative performance measures (APMs) which are not defined or specified under the requirements of the International Financial Reporting Standards (IFRS). The Group uses these APMs to improve the comparability of information between reporting periods and division, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and Management for performance analysis, planning, reporting and incentive purposes. A summary of APMs are included in the Appendix below.

Revenue

			Reported growth	
	1H20 £m	1H19 £m	At actual Rates	At constant currency
Language Services	**125.9**	128.4	(1.9%)	(2.9%)
Language Technologies	**25.7**	25.6	0.4%	(0.4%)
Content Technologies	**29.1**	28.5	2.1%	0.4%
Group	**180.7**	182.5	(1.0%)	(2.0%)

Group revenue in 1H20 was £180.7m, a decrease of 1.0% on a reported basis and 2.0% on a constant currency basis. The decrease arose in the Language Services segment as a result of the impact of COVID-19 on certain sectors, and was partially offset by new deals in the Language Technologies and Content Technologies segments.

There were marked regional differences in the period, albeit reflecting SDL's specific customer and sector exposure in those markets. Revenues in APAC reduced by 23.8%, largely driven by a key customer in the Marketing Solutions area that had experienced material volume declines as a result of COVID-19. EMEA revenues increased by 2.1% year-on-year, with segmental exposure in manufacturing, retail, travel and automotive being offset by increasing revenues in Life Sciences, Aerospace & Defence and Government. NASA revenues increased by 3.8%, driven by customers within the High Tech and Life Sciences sectors. SDL's largest customer (which is within the High Tech sector) performed strongly, and new services agreements were put in place with two other major technology companies.

SDL measures Annual Recurring Contract Value ("ARCV"), which includes the amount of revenue recognised in the last month of the reporting period, annualised and generated from technology-related subscription contracts (SaaS, hosting and support and maintenance) and term contracts cash flows arising from term licence fees. In 1H20, ARCV was £76.5m, which represents a 7.1% increase on 1H19.

Gross profit

Gross profit increased by £0.4m to £94.4m representing a gross profit margin of 52.2% (1H19: 51.5%). This margin improvement is as a result of the investment in the Language Services automation process and the impact of a reduction in variable compensation.

Gross profit margin within the Group's largest division, Language Services, improved from 42.1% to 43.5%. The year-on-year improvement reflects the continued adoption and improvements of the Group's business process automation platform (Helix), optimisation of SDL's resourcing model, continued strong usage of machine translation and improved process controls.

The Group has increased its internal translation headcount by 110 heads to 1,535 from December 19 and maintained Linguistic Productive Utilisation at 67%.

Gross profit margin within Language Technologies contracted by 1.7% to 76.4% (1H19: 78.1%) and Content Technologies gross margin reduced from 70.2% to 69.1%. The margin variation is driven by the mix of revenues between SaaS, perpetual and term licenses and recurring support and maintenance revenues.

Adjusted administrative expenses

Adjusted administrative expenses increased by £0.2m to £78.1m. These expenses exclude the impact of exceptional items (£1.3m) and acquisition-related amortisation (£1.6m). Statutory administrative expenses were £81.0m (1H19: £82.1m). Adjusted administrative expenses as a percentage of revenue were 43.2% (1H19: 42.7%) and reflect the investment in business continuity costs in H1. Staff costs make up a large proportion of the cost base, accounting for approximately 71.3% of total administrative expenses.

The Group is executing phase 1 of its cost reduction plan to partially offset reduced revenues. This will have the impact of reducing costs (within cost of sales and administrative expenses) by approximately £8m compared with budget, through a combination of cost avoidance and tighter control of discretionary spend.

During the first half, SDL invested in the delivery of SLATE – SDL's online translation on demand platform that is based on SDL Language Cloud - and further business continuity tooling such as VPN licences and a Virtual Desktop Infrastructure to aid SDL employees in working from home.

The Group continues to review administrative costs and has completed a review of the Group's cost base. As a result, SDL has initiated a future real estate plan that will right-size the Group's property portfolio over the next five years, which will yield a £3m to £4m net annual cost saving by the end of 2025.

Exceptional costs in the first half were £1.3m of which £1.2m related to restructuring costs. These restructuring costs include the exit of certain legacy teams after identifying further synergies and integration opportunities as a result of the acquisition of DLS.

Adjusted operating profit

Adjusted operating profit and margin was £16.3m (1H19: £16.1m) and 9.0% (1H19: 8.8%), and is before exceptional items of £1.3m and amortisation of acquired intangibles of £1.6m.

The Group achieved a statutory operating profit in the period of £13.4m (1H19: £11.9m).

Taxation

The 1H20 tax charge was £1.5m (1H19: £2.9m) and represents a reported effective tax rate of 12.8% (1H19: 26.6%). The adjusted effective tax rate was 26.0% (1H19: 24.5%). The adjusted effective tax rate excludes the impact of exceptional items, amortisation of acquisition-related intangibles and exceptional tax credits.

Following a review of the DLS acquisition accounting, the deferred tax liability in respect of US assets has been remeasured to reflect management's best estimate of the US tax base, taking into account all currently available information. This has resulted in an exceptional tax credit of £1.6m, which is excluded from the adjusted effective tax rate.

Tax cash paid in 1H20 was £1.3m (1H19: £3.5m) with total tax cash paid in 2020 expected to be in the region of £4-5m.

The Group's adjusted effective tax rate going forward is expected to be in the region of 25% to 27%. The rate is higher than the effective UK rate principally due to the impact of higher tax rates in overseas countries and to a lesser extent disallowable expenditure. There are some countries in which the tax rate is lower than the UK, but the impact is small either because the countries are not significant contributors to Group profit, or the tax rate difference is not significant.

Earnings per share

Basic EPS was 11.2p, a 25.8% increase on the prior year, reflecting underlying profit growth, a reduction in exceptional costs and a lower reported tax charge. Adjusted diluted EPS reduced by 4.9% on the prior period to 11.7p mainly due to the exclusion of the £1.6m exceptional tax credit from adjusted profit after tax earnings.

Cash flow, funding and net cash

Cash flow in the first half was strong with adjusted operating cash flow of £23.4m (1H19: £9.6m) and operating cash conversion of 144% (1H19: 60%). Adjusted operating cash flow is calculated as adjusted operating profit (£16.3m), depreciation and amortisation from non-acquired intangibles (£9.0m), share-based payments (£0.8m) and net changes in working capital (£2.7m). The Group has reduced its trade receivables over 90 days from £4.3m at 31 December 2019 to £2.3m as at 30 June 2020 and improved Days' sales outstanding ('DSO') to 53 days.

Total capital expenditure of £6.9m includes payments for maintenance capital expenditure (£1.1m), capitalised development costs (£4.2m) and investment capital expenditure (£1.6m).

The cash impact of exceptional items amounted to £1.3m (1H19: £2.0m). As disclosed in the 2019 Annual Report, the Directors did not recommend the payment of a final dividend in light of the uncertainty created by the COVID-19 pandemic (1H19: Final dividend of £6.3m).

The Group's gross cash balances at 30 June 2020 amounted to £35.1m with external borrowings of £Nil (31 December 2019: £26.3m cash and no external borrowings; 30 June 2019: £13.1m cash and £12.0m of external borrowings).

Balance sheet and working capital

Net assets at 30 June 2020 increased to £276.8m (31 December 2019: £252.5m) reflecting the growth in the business and the impact of foreign exchange rates on the Group's intangible assets. The net impact on the balance sheet of foreign exchange translation was an increase of £15.1m.

Trade and other receivables decreased by £1.8m to £99.8m (31 December 2019: £101.6m). DSO calculation reflects the number of days' billing in debtors. DSO decreased to 53 days (31 December 2019: 55 days).

Current trade and other payables of £87.3m (31 December 2019: £92.5m) includes deferred income of £38.2m (31 December 2019: £37.7m). Accruals of £32.5m (31 December 2019: £39.4m) were lower than the year end due to reduced accruals for current variable compensation plans and lower spend and therefore accruals in relation to marketing events and T & E spend.

Treasury and financing

SDL manages its financing and tax planning activities centrally to ensure that the Group has an appropriate structure to support its geographically diverse business. It has clearly defined policies and procedures with any substantial changes to the financial structure of the Group, or to its treasury practice, referred to the Board for approval. The Group operates strict controls over all treasury transactions. The Group does not hedge against forecast future foreign currency transactions or the translation of its foreign currency profits and its results are therefore impacted by movements in exchange rates. The average rates used to translate the consolidated income statement are as follows:

Average exchange rates	**1H20**	**1H19**
Euro (€)	1.14	1.15
US Dollar ($)	1.26	1.30

Foreign exchange had a favourable impact on the Group's results for the year. The Group's results on a constant currency basis are included within the operational review.

The principal exposures of the Group are to the US Dollar and Euro with approximately 50% of the Group's revenue being attributable to the US Dollar and 25% of Group costs being Euro denominated.

A portion of the Group's foreign currency net assets are naturally hedged using the Group's multi-currency borrowing facilities.

The Group's debt is sourced from a £120m syndicated multi-currency Revolving Credit Facility ('RCF') of which £70m is committed. The remaining balance relates to a £50m uncommitted accordion facility and expires on 17 July 2023. Borrowings drawn down under the RCF are currently subject to interest at 1.15% over LIBOR.

The Group also holds a £1m unsecured overdraft facility. Borrowings on this facility are subject to interest at 1.75% over base rate and are repayable on demand.

The Group was in compliance with the financial covenants of its facilities at 30 June 2020 and throughout the period.

Capital structure

The Board believes in maintaining an efficient but prudent capital structure, whilst retaining the flexibility to make value-enhancing acquisitions. The Board's main strategic priority remains organic growth, supported by targeted bolt-on acquisitions.

Brexit impact

The Group operates in a range of end-user markets that may be affected by Brexit developments in the future. Although the outcome of Brexit is difficult to quantify, SDL does not expect the direct consequences of Brexit to have a material impact on the Group. However, there may be other legal, regulatory and commercial ramifications, the likely impact of which are difficult to measure until a final trade agreement is in place between the UK and the EU.

SDL has a Brexit steering group that monitors developments and pays attention to any emerging details relating to changes required by virtue of the UK leaving the EU. The Group is aware that a number of areas will change irrespective of the outcome of negotiations and a number of tax impacts fall into this category. SDL's tax team is reviewing Brexit implications to make sure that tax impacts are integrated into business decision making. Due to the Group's diversified geographical footprint, and the characteristics of the industry sectors in which the Group operates, SDL believes it is well positioned to manage any negative impact.

Going Concern Statement

Performance to date during COVID-19 has been discussed in the operational review above, which was considered in the preparation of forecasts for the purposes of going concern. Further details are provided within the basis of preparation in note 1 to the financial statements.

The Directors have considered the impact of COVID-19 in assessing whether the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have reviewed the current liquidity of the Group, the impact of COVID-19 on the budgets and forecasts that have been prepared across a number of scenarios and the impact on the Group's banking covenants.

The Group had cash in excess of £45m at the date of signing, and had not drawn down on its revolving credit facility. The Directors have considered the mitigating actions which would be taken in the event of a material deterioration in the Group's trading and consider that it could take appropriate steps to ensure that the Group has adequate resources to continue in operational existence.

The Group has a £70m committed revolving credit facility (RCF) with HSBC and Lloyds, expiring in July 2023.The agreement also includes a £50m uncommitted accordion facility. The Group's borrowings as at 30 June 2020 were £Nil (1H19: £12.0m).

After reviewing performance in 2020, the Group's budget, forecasts and three year plans (to 2022), the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. Given this expectation they have continued to adopt the going concern basis in preparing the financial statements.

Further information is provided in note 1 of the financial statements.

Principal risks and uncertainties

The principal risks and uncertainties were disclosed in the Group's annual report and financial statements for the year ended 31 December 2019 and remain broadly unchanged. SDL has an established process both to manage risk and to seek to mitigate the impact of risk as much as possible should it materialise. Operational risks include management succession, system interruption and business continuity, data protection, compliance, contract management, integration of acquisitions, maintaining technology leadership and intellectual property. Financial risks include liquidity, counterparties, interest rates and financial reporting.

Cautionary statement

Certain statements in this interim management report constitute, or may be deemed to constitute, forward-looking statements (including beliefs or opinions). Any statement in this interim management report that is not a statement of historical fact including, without limitation those regarding the Group's future expectations, operations, financial performance, financial condition and business, is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risk and uncertainties include, among other factors, changing economic financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this results announcement. As a result, you are cautioned not to place reliance on such forward-looking statements.

Except as is required by the Listing Rules, Disclosure and Transparency Rules and applicable laws, no undertaking is given to update the forward-looking statements contained in this interim management report, whether as a result of new information, future events or otherwise.

Nothing in this interim management report should be construed as a profit forecast. This interim management report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to SDL plc and its subsidiary undertakings when viewed as whole.

This announcement is released by SDL plc and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 ("MAR"), encompassing information relating to trading for the Group's expected results for the financial year ending 31 December 2020, and is disclosed in accordance with the Group's obligations under Article 17 of MAR.

SDL plc

Condensed Consolidated Income Statement

	Notes	**Unaudited six months to 30 June 2020 £m**	Unaudited six months to 30 June 2019 £m
Revenue	2	**180.7**	182.5
Cost of sales		**(86.3)**	(88.5)
Gross profit		**94.4**	94.0
Administrative expenses		**(81.0)**	(82.1)
Operating profit	3	**13.4**	11.9
Operating profit before exceptional items and amortisation of acquired intangibles		**16.3**	16.1
Exceptional items	4	**(1.3)**	(2.1)
Amortisation of acquired intangibles	3	**(1.6)**	(2.1)
Operating profit		**13.4**	11.9
Finance expense	5	**(1.7)**	(1.0)
Profit before tax		**11.7**	10.9
Tax expense (including an exceptional tax credit of £1.6m; 2019: £Nil)	6	**(1.5)**	(2.9)
Profit for the period attributable to the equity holders of the Parent Company		**10.2**	8.0
Earnings per share			
Basic	7	**11.2p**	8.9p
Diluted	7	**11.1p**	8.7p

SDL plc
Condensed Consolidated Statement of Comprehensive Income

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
Profit for the period	**10.2**	8.0
Other comprehensive income / (expense):		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences on foreign operations	**15.1**	(1.1)
Currency translation differences on foreign currency equity loans to foreign subsidiaries (net of deferred tax)	**(2.0)**	(0.3)
Other comprehensive income / (expense)	**13.1**	(1.4)
Total comprehensive income	**23.3**	6.6

Total comprehensive income is attributable to equity holders of the parent company.

SDL plc

Condensed Consolidated Statement of Financial Position

	Notes	**Unaudited 30 June 2020 £m**	Unaudited 30 June 2019 £m	Audited 31 December 2019 £m
Assets				
Non-current assets				
Intangible assets	9	**226.4**	221.7	215.2
Property, plant and equipment		**12.3**	10.0	11.0
Right of use asset		**32.4**	19.8	29.5
Deferred tax assets		**6.2**	8.0	7.0
Non-current tax assets		**3.1**	-	3.1
Other receivables		**2.7**	2.7	2.6
Capitalised contract costs		**0.6**	0.9	0.6
		283.7	263.1	269.0
Current assets				
Trade and other receivables		**99.8**	118.1	101.6
Capitalised contract costs		**2.1**	1.9	2.1
Tax assets		**4.1**	6.6	4.3
Cash and cash equivalents		**35.1**	13.1	26.3
		141.1	139.7	134.3
Total assets		**424.8**	402.8	403.3
Liabilities				
Current liabilities				
Trade and other payables		**(87.3)**	(99.8)	(92.5)
Lease liabilities		**(9.1)**	(3.8)	(7.6)
Current tax liabilities		**(5.7)**	(10.1)	(6.8)
Provisions		**-**	(0.5)	(0.2)
		(102.1)	(114.2)	(107.1)
Non-current liabilities				
Trade and other payables		**(2.0)**	(0.7)	(1.9)
Lease liabilities		**(26.8)**	(16.6)	(24.4)
Borrowings	10	**-**	(12.0)	-
Deferred tax liabilities		**(7.3)**	(8.3)	(8.0)
Non-current tax liabilities		**(4.5)**	-	(4.3)
Provisions		**(5.3)**	(3.6)	(5.1)
		(45.9)	(41.2)	(43.7)
Total liabilities		**(148.0)**	(155.4)	(150.8)
Net assets		**276.8**	247.4	252.5
Equity				
Share capital		**0.9**	0.9	0.9
Share premium		**136.9**	136.0	136.8
Retained earnings		**105.6**	82.5	94.5
Translation reserve		**33.4**	28.0	20.3
Total equity attributable to equity holders of the Parent Company		**276.8**	247.4	252.5

The Interim Financial Information presented in this interim report was approved by the Board of Directors on 10 August 2020.

SDL plc
Condensed Consolidated Statement of Changes in Equity

	Share Capital £m	Share Premium £m	Retained Earnings £m	Translation Reserve £m	Total £m
At 31 December 2018 (audited)	0.9	136.0	79.3	29.4	245.6
Profit for the period	-	-	8.0	-	8.0
Other comprehensive income	-	-	-	(1.4)	(1.4)
Total comprehensive income	-	-	8.0	(1.4)	6.6
Dividend paid	-	-	(6.3)	-	(6.3)
Share-based payments expense*	-	-	1.6	-	1.6
Share-based payments deferred tax*	-	-	(0.1)	-	(0.1)
Arising on share issues*	-	-	-	-	-
At 30 June 2019 (unaudited)	**0.9**	**136.0**	**82.5**	**28.0**	**247.4**
Profit for the period	-	-	11.6	-	11.6
Other comprehensive income	-	-	-	(7.7)	(7.7)
Total comprehensive income	-	-	11.6	(7.7)	3.9
Share-based payments expense*	-	-	0.8	-	0.8
Share-based payments deferred tax*	-	-	-	-	-
Arising on share issues*	-	0.8	-	-	0.8
Adjustments on transition to IFRS16	-	-	(0.4)	-	(0.4)
At 31 December 2019 (audited)	**0.9**	**136.8**	**94.5**	**20.3**	**252.5**
Profit for the period	**-**	**-**	**10.2**	**-**	**10.2**
Other comprehensive income	**-**	**-**	**-**	**13.1**	**13.1**
Total comprehensive income	**-**	**-**	**10.2**	**13.1**	**23.3**
Dividend paid	**-**	**-**	**-**	**-**	**-**
Share-based payments expense*	**-**	**-**	**0.8**	**-**	**0.8**
Share-based payments deferred tax *	**-**	**-**	**0.1**	**-**	**0.1**
Arising on share issues*	**-**	**0.1**	**-**	**-**	**0.1**
At 30 June 2020 (unaudited)	**0.9**	**136.9**	**105.6**	**33.4**	**276.8**

*These amounts relate to transactions with owners of the Group recognised directly in equity. The amounts above are attributable to the equity of the parent company.

SDL plc
Condensed Consolidated Statement of Cash Flows

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
Profit for the period	**10.2**	8.0
Tax expense	**1.5**	2.9
Profit before tax	**11.7**	10.9
Adjustments for:		
Depreciation of property, plant and equipment	**1.9**	2.2
Depreciation of right of use assets	**3.8**	2.5
Amortisation of intangible assets	**4.8**	4.4
Share-based payment expense	**0.8**	1.6
Interest expense	**1.7**	1.0
Exchange differences	**(1.4)**	(0.5)
CASH GENERATED FROM OPERATIONS BEFORE WORKING CAPITAL AND PROVISIONS	**23.3**	22.1
Decrease / (Increase) in trade and other receivables	**2.7**	(9.4)
(Decrease) in trade and other payables and provisions	**(5.4)**	(5.7)
CASH GENERATED FROM OPERATIONS	**20.6**	7.0
Income tax paid	**(1.3)**	(3.5)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	**19.3**	3.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of intangible assets	**(5.8)**	(4.8)
Payments to acquire property, plant and equipment	**(1.1)**	(0.5)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(6.9)**	(5.3)

SDL plc
Condensed Consolidated Statement of Cash Flows (continued)

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
FINANCING ACTIVITIES		
Net proceeds from borrowings	**63.0**	6.6
Repayment of borrowings	**(63.0)**	-
Interest paid	**(0.4)**	(0.7)
Lease liabilities paid	**(3.9)**	(3.8)
Net proceeds from issue of ordinary share capital	**0.1**	-
Dividend paid on ordinary shares	**-**	(6.3)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(4.2)**	(4.2)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**8.2**	(6.0)
MOVEMENT IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at start of the period	**26.3**	19.8
Increase / (decrease) in cash and cash equivalents	**8.2**	(6.0)
Effect of exchange rates on cash and cash equivalents	**0.6**	(0.7)
Cash and cash equivalents at end of the period	**35.1**	13.1

SDL plc
Notes to the Half year Condensed Consolidated Financial Statements

1. General Information, basis of preparation and accounting policies

The half year condensed consolidated financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 14 April 2020 and have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

The half year condensed consolidated financial statements have been reviewed, not audited, by the Group's auditor pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information. A copy of their review report is included at the end of this report.

The half year condensed consolidated financial statements for the period ended 30 June 2020 were approved by the Directors on 10 August 2020.

Basis of preparation
The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared on a going concern basis in accordance with IAS 34 Interim Financial Reporting.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, this condensed set of interim financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2019.

The preparation of condensed consolidated interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results for which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Going Concern
The financial statements have been prepared on the going concern basis.

At 30 June 2020, the Group had cash of £35.1m and had no borrowings on any of its borrowing facilities. In addition, the Group has in place a five-year £120m revolving credit facility (RCF), expiring on 19 July 2023, of which £70m is committed. The agreement also includes a £50m accordion (uncommitted) facility. This facility is provided by HSBC and Lloyds and is subject to covenants that, if breached, would result in the facility becoming repayable on demand.

Performance to date during COVID-19 has been discussed in the operational review above, which was considered in the preparation of forecasts for the purposes of going concern.

In March 2020, the Directors drew down a total of £63m of the Group's bank facility to ensure continued liquidity in the face of any potential banking crisis and potential unforeseen liquidity issues as a result of COVID-19. This amount has been fully repaid within the period to 30 June 2020.

The Group has a resilient balance sheet position, with net assets of £276.8m at 30 June 2020, having made a profit for the period of £10.2m and generated cash from operations of £20.6m for the period then ended.

The business continuity plans actioned by the Group to date have resulted in operations continuing unaffected on a remote working basis but with the possibility of a reduction in revenues in the current year as a result of the uncertain macro-economic environment caused by the COVID-19 pandemic depending on the shape of the forecast economic recovery.

The Directors have prepared cash flow forecast scenarios for a minimum period of 12 months that, could arise if revenues were to reduce compared to the expectations set at the year end. This includes a downside scenario of a revenue decline of 5% for a period of six months which the Directors consider to be a severe but plausible scenario. All revenue reduction modelling is accompanied by a multi-phased cost reduction plan. The first phase of cost controls totalling £8.0m is already in progress and includes a combination of actions including prioritisation of insourcing to reduce linguistic outsourcing costs, a deferral of the annual inflationary pay rise across the Group, restriction on new hires and tight control of discretionary spend. The Group has access to a number of alternative measures should results be behind the severe but plausible downside. The Directors have more extensive cost cutting actions open to them, such as additional measures to reduce salary costs and the use of government's support schemes, but do not believe at this time that these would need to be implemented.

The global requirement for working from home automatically results in additional cost savings in respect of travel and entertainment.

The Group's forecasts and projections, taking account reasonably possible changes in trading performance and the market uncertainty generated by the financial impact of COVID-19, show that the Group should be able to operate within the level of its current committed facilities, With this in mind, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. They continue to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

Critical Accounting Estimates and Judgments

The preparation of these condensed consolidated interim financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The actual future outcomes may differ from these estimates and give rise to material adjustments to the reported results and financial position of the Group. Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the year in which the estimates are revised and in any future periods affected.

The Group's significant estimates and judgements noted below are consistent with those as disclosed in the financial statements for the year ending 31 December 2019. These are:

Significant areas of judgement:

- The allocation of transaction price to the identified performance obligations within the Group's contracts containing multi-element arrangements (note 2),
- The eligibility of the Group's R&D expenditure for capitalisation under IAS38 *Intangible Assets* (note 3 and 9).

Areas of estimation uncertainty:

- Value in use estimation for the Group's Cash Generating Units ('CGUs'),
- Interpretation of applicable tax legislation and the recoverability of the Group's resulting deferred tax assets.

2. Segment information and revenue disclosures

For internal management reporting purposes, the operating segments are determined by product and service groupings and referred to as divisions. The Group's operating segments are:

– Language Services

– Language Technologies

– Content Technologies

Segment profits represent the profit earned by each segment without allocation of central administration costs which are presented as a separate line below segment profit. This is the measure reported to the Board (Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance. Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties.

Six months ended 30 June 2020 (unaudited)

	External Revenue £m	**Segment profit before taxation, acquisition related amortisation and exceptionals £m**
Language Services	**125.9**	**11.0**
Language Technologies	**25.7**	**4.9**
Content Technologies	**29.1**	**6.6**
Total	**180.7**	**22.5**
Corporate costs		**(6.2)**
Group adjusted operating profit		**16.3**
Exceptional items		**(1.3)**
Acquisition related amortisation		**(1.6)**
Operating profit		**13.4**
Interest		**(1.7)**
Profit before taxation		**11.7**

Six months ended 30 June 2019 (unaudited)

	External Revenue £m	**Segment profit before taxation, acquisition related amortisation and exceptionals £m**
Language Services	128.4	12.0
Language Technologies	25.6	5.2
Content Technologies	28.5	7.2
Total	182.5	24.4
Corporate costs		(8.3)
Group adjusted operating profit		16.1
Exceptional items		(2.1)
Acquisition related amortisation		(2.1)
Operating profit		11.9
Interest		(1.0)
Profit before taxation		10.9

Revenue by geographical destination was as follows:

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
United Kingdom	**21.2**	20.7
Rest of Europe, Middle East and Africa (exc.UK)	**52.2**	51.2
USA	**78.4**	75.7
NASA (excluding USA)	**8.1**	7.6
APAC	**20.8**	27.3
	180.7	182.5

Revenue by type was as follows:

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
Language services	**125.9**	128.2
Professional services	**7.6**	7.9
License revenue	**23.0**	23.1
Hosting services	**1.8**	1.5
Support and maintenance	**22.4**	21.8
Total Revenue	**180.7**	182.5
Goods and services transferred at a point in time	**13.5**	14.1
Goods and services transferred over time	**167.2**	168.4
Total Revenue	**180.7**	182.5

Contract Balances

The following table provides information on the contract assets and liabilities from revenue contracts with customers:

	Unaudited 30 June 2020 £m	Unaudited 30 June 2019 £m
Receivables which are included in 'Trade and other receivables'	**72.4**	79.4
Contract assets included in 'Accrued income'	**15.8**	27.2
Contract liabilities included in 'Deferred income'	**(38.2)**	(39.9)

The Group's revenue contracts with customers vary depending on the nature of the performance obligations included. The Group's contracts for language and professional services are typically short term contracts with a duration of less than one year.

Contracts for license revenue, hosting services and support and maintenance vary but are typically between one year and three years in duration.

3. Operating profit

	Unaudited six months to 30 June 2020	Unaudited six months to 30 June 2019
	£m	£m
Is stated after charging / (crediting):		
Research and development expenditure	**14.3**	10.3
Provision for trade receivables	**0.3**	(0.3)
Depreciation of property, plant and equipment	**1.9**	2.2
Depreciation of right-of-use asset	**3.8**	2.5
Amortisation of acquired intangible assets (note 9)	**1.6**	2.1
Amortisation of internally generated intangibles (note 9)	**3.2**	2.3
Lease rentals for plant and machinery	**0.2**	0.1
Lease rentals for land and buildings	**0.8**	1.4
Net foreign exchange (gains) / losses	**(1.4)**	(0.5)
Share-based payment charge	**0.8**	1.6

4. Exceptional items

Exceptional items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The Group separately reports the cost of restructuring programmes, acquisition and disposal costs and other exceptional items along with their related tax effect as exceptional items:

	Unaudited six months to 30 June 2020			Unaudited six months to 30 June 2019		
	Pre-tax	**Tax impact**	**Total**	Pre-tax	Tax impact	Total
	£m	**£m**	**£m**	£m	£m	£m
Restructuring costs	**1.2**	**(0.3)**	**0.9**	1.7	(0.4)	1.3
Acquisition related costs	**-**	**-**	**-**	0.4	-	0.4
Other exceptional items	**0.1**	**-**	**0.1**	-	-	-
	1.3	**(0.3)**	**1.0**	2.1	(0.4)	1.7

The cash flows arising on the exceptional items pre-tax included above are materially the same as their value in the income statement above.

Restructuring costs

Restructuring costs relate to the costs of organisational change associated with the Group's transformation programme. Normal trading redundancy costs are charged to the income statement as incurred. The results of cost savings will be shown within operating profit.

These restructuring costs include identifying further synergies and integration opportunities as a result of the acquisition of DLS and the exit of certain legacy teams.

Acquisition related costs

There were no acquisition related costs incurred in 1H20 which meet the Group's definition for recognition as an exceptional item.

In 1Y19, acquisition related costs of £0.4m included acquisition-related integration costs and the settlement of indemnity claims made subsequent to the re-measurement period.

Other exceptional items

Other exceptional costs include a £0.1m (1H19: £Nil) tax penalty which is considered exceptional due to its size and nature. The amount represents management's best estimate of tax penalties that will arise in connection with revisions to certain transfer pricing transactions that have occurred in prior years. The total provision for tax penalties that the Group holds is £1.5m (1H19: £0.6m).

5. Finance Costs

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
Bank interest	**0.3**	0.2
Right of use asset finance costs	**1.0**	0.5
Other interest expense	**0.4**	0.3
Total finance costs	**1.7**	1.0

During the period ending 30 June 2020, the Group had drawn down upon and repaid in full its revolving credit facility, full details of the movement in borrowings can be found in note 10.

6. Taxation

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
Total current taxation	**1.4**	2.5
Deferred taxation:		
Total deferred taxation	**0.1**	0.4
Tax expense	**1.5**	2.9

Effective tax rate

The effective tax rate on reported profit before tax was 12.8% (1H19: 26.6%).

The adjusted tax charge was £3.8m (1H19: £3.7m) giving an effective tax rate of 26.0% (1H19: 24.5%) on adjusted profit before tax of £14.6m (1H19: £15.1m) Adjusted profit before tax is an adjusted measure which, is reconciled as part of the APMs section in the Appendix below.

The adjusted tax charge is the total tax charge as disclosed in the Condensed Consolidated Income Statement less the tax effects of exceptional expenses and amortisation of acquired intangible assets. The effective income tax rate represents the best estimate of the average annual effective income tax rate expected for the full year, applied to the profit before income tax for the six months ended 30 June 2020 adjusted for discrete items as required.

The Group’s adjusted effective tax rate going forward is expected to be in the region of 25% to 27%. The rate is higher than the effective UK rate principally due to the impact of higher tax rates in overseas countries and to a lesser extent disallowable expenditure. There are some countries in which the tax rate is lower than the UK, but the impact is small either because the countries are not significant contributors to Group profit, or the tax rate difference is not significant.

Other one-off items

In addition to the exceptional tax credit of £1.6m, within the reported tax charge of £1.5m (and adjusted tax charge of £3.8m) there is, in aggregate, an additional net credit of £0.9m in respect of one-off and non-recurring items. These include the impacts of changes in tax rates, return to provision true ups as well as prior period corrections, which, in aggregate are immaterial.

Exceptional tax credit

The deferred tax liability in respect of US assets acquired as a result of the DLS acquisition have been recalibrated to more accurately reflect the current US tax position. This has resulted in an exceptional tax credit of £1.6m and has been treated within exceptional items which is consistent with the Group’s treatment of acquisition related items.

Uncertain tax provisions

The Group holds uncertain tax provisions in relation to historic transfer pricing arrangements between the UK, Ireland, the US as well as other tax risks across the Group. These provisions total £7.0m at 30 June 2020. (1H19: £4.4m).

7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the basic earnings per share for the effects of share options and awards granted to employees. These are included in the calculation when their effects are dilutive.

Adjusted earnings per share is a trend measure, which presents the long-term profitability of the Group excluding the impact of specific transactions that management considers affects the Group's short-term profitability. The Group presents this measure to assist investors in their understanding of trends. Adjusted profit before tax is the numerator used for this measure. The Group has identified the following items to be excluded when arriving at adjusted profit before tax: amortisation of acquisition intangible assets and exceptional items.

	Unaudited six months to 30 June 2020	Unaudited six months to 30 June 2019
Earnings per ordinary share – basic (p)	**11.2p**	8.9p
Earnings per ordinary share – diluted (p)	**11.1p**	8.7p
Adjusted earnings per ordinary share – basic (p)	**11.8p**	12.6p
Adjusted earnings per ordinary share – diluted (p)	**11.7p**	12.3p

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
Profit for the period attributable to equity holders of the parent	**10.2**	8.0
	Number	Number
Basic weighted average number of shares (million)	**91.4**	90.7
Employee share options and shares to be issued (million)	**0.8**	1.9
Diluted weighted average number of shares (million)	**92.2**	92.6

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m
Profit for the period attributable to equity holders of the parent	**10.2**	8.0
Amortisation of acquired intangible assets	**1.6**	2.1
Exceptional items	**1.3**	2.1
Deferred tax benefit associated with amortisation of acquired intangible assets	**(0.4)**	(0.4)
Tax benefit associated with exceptional items	**(0.3)**	(0.4)
Exceptional tax credit	**(1.6)**	-
Adjusted profit attributable to equity holders of the parent	**10.8**	11.4

8. Dividend per share

Dividends paid in 1H20 were £Nil (1H19: £6.3m). The dividend per share in 2020 was Nil (2019: 7.0p per share).

9. Intangible assets

Cost	Customer Relationships £m	Intellectual Property £m	Goodwill £m	Capitalised Development £m	Software £m	**Total £m**
At 1 January 2019	48.3	64.9	235.3	10.1	11.3	369.9
Additions	-	-	-	3.7	1.1	4.8
Re-measurement	-	-	(1.2)	-	-	(1.2)
Disposals	-	-	-	-	-	-
Effects of foreign exchange	(0.1)	(0.2)	(0.2)	-	-	(0.5)
At 30 June 2019	**48.2**	**64.7**	**233.9**	**13.8**	**12.4**	**373.0**
Additions	-	-	-	3.8	1.3	5.1
Disposals	-	-	(17.1)	-	-	(17.1)
Effects of foreign exchange	(1.4)	(1.8)	(5.7)	-	-	(8.9)
At 31 December 2019	**46.8**	**62.9**	**211.1**	**17.6**	**13.7**	**352.1**
Additions	-	-	-	4.2	1.6	5.8
Effects of foreign exchange	2.4	3.1	8.7	-	-	14.2
At 30 June 2020	**49.2**	**66.0**	**219.8**	**21.8**	**15.3**	**372.1**
Accumulated Amortisation						
At 1 January 2019	(18.5)	(60.8)	(65.9)	(1.1)	(0.7)	(147.0)
Charge for the year	(0.9)	(1.0)	-	(1.7)	(0.7)	(4.3)
Effects of foreign exchange	-	-	-	-	-	-
At 30 June 2019	**(19.4)**	**(61.8)**	**(65.9)**	**(2.8)**	**(1.4)**	**(151.3)**
Charge for the year	(1.1)	(1.4)	-	(2.2)	(0.5)	(5.2)
Disposals	-	-	17.1	-	-	17.1
Effects of foreign exchange	0.5	2.0	-	-	-	2.5
At 31 December 2019	**(20.0)**	**(61.2)**	**(48.8)**	**(5.0)**	**(1.9)**	**(136.9)**
Charge for the year	(1.0)	(0.6)	-	(2.6)	(0.6)	(4.8)
Effects of foreign exchange	(0.9)	(3.1)	-	-	-	(4.0)
At 30 June 2020	**(21.9)**	**(64.9)**	**(48.8)**	**(7.6)**	**(2.5)**	**(145.7)**
Net book value	**27.3**	**1.1**	**171.0**	**14.2**	**12.8**	**226.4**
At 31 December 2019	26.8	1.7	162.3	12.6	11.8	215.2
At 30 June 2019	28.8	3.0	168.0	11.0	11.0	221.7

In the prior period, the Group wrote off goodwill relating to non-core which was fully impaired and disposed of. No such similar transactions have occurred in the current period.

The Group have reviewed for any indicators of impairment in the Group's intangibles assets, particularly in the light of the current COVID-19 pandemic and no indicators of impairment were identified.

10. Interest-bearing loans

	Unaudited 30 June 2020	Audited 31 Dec 2019	Unaudited 30 June 2019
Balance opening	**-**	12.0	5.4
Drawn down during the period	**63.0**	-	26.2
Interest accrued during the period	**0.3**	-	-
Repayments during the period	**(63.3)**	(12.0)	(19.5)
Exchange movements	**-**	-	(0.1)
Balance closing	**-**	-	12.0

At 30 June 2020, the Group had a five year £120m syndicate revolving credit facility, expiring on 17 July 2023. The agreement is for a £70m committed facility and includes a £50m accordion (uncommitted) facility as well. At 30 June 2020, £Nil was drawn on the facility (December 2019: £Nil; June 2019: £12.0m).

On drawing the funds under the £70m committed revolving credit facility, the Group elects the repayment period to affect the interest on the loan but the funds are repayable at the Group's discretion subject to the wider terms of the facility. Accordingly, drawdowns under this facility have been categorised as non-current. The loan bears interest at LIBOR+ margin, the margin varying between 1.15% and 2.15% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation, amortisation and exceptional items.

11. Share-based compensation grants

On 17 April 2020, 1,227,253 Long Term Incentive Plan (LTIP) shares were awarded to certain key senior executives and employees of the Group.

The LTIPs consist of shares based on market conditions and are split between Earnings per Share (EPS) and TSR conditions. The fair value of the award at Grant was identified as between £4.82 and £3.72 per LTIP respectively.

The LTIPs include a service condition and are due to vest over a three year period from the grant date.

12. Related parties

There are no material related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" other than compensation of key management personnel, which will be disclosed in the Group's Annual Report for the year ending 31 December 2020.

Appendix – Alternative performance measures

Alternative performance measures

The Board uses a number of alternative performance measures which, are measures that can be directly reconciled to GAAP measures. The Board primarily uses 'adjusted' measures as they exclude the impact of non-recurring transactions which are not part of the normal course of business. Adjusted measures therefore are calculated by removing the impact of exceptional items and amortisation of acquired intangibles.

Adjusted measures used by the Board include:

- **Adjusted operating profit**: operating profit before exceptionals and amortisation of acquired intangibles (reconciled on the face of the income statement).
- **Adjusted profit after tax**: profit after tax before exceptionals and amortisation of acquired intangibles (reconciled in note 7 as the numerator for adjusted EPS and adjusted diluted EPS).
- **Adjusted operating cash flows**: operating cash flows before exceptional items (reconciled below).
- **Adjusted effective tax rate:** effective tax rate before exceptionals, amortisation of acquired intangibles and exceptional tax (reconciled below).
- **Adjusted earnings per share**: earnings per share before exceptionals net of tax, amortisation of acquired intangibles net of tax and exceptional tax amounts (reconciled in note 7).
- **Constant currency:** Prior period underlying measures, including revenue are retranslated at the current period exchange rates to neutralise the effect of currency fluctuations.

Adjusted profit before tax reconciliation	**1H20**	**1H19**
Statutory profit before tax	11.7	10.9
Exceptional items	1.3	2.1
Amortisation of acquired intangibles	1.6	2.1
Adjusted profit before tax	**14.6**	**15.1**

Adjusted operating cash flows reconciliation	**1H20**	**1H19**
Adjusted operating profit	16.3	16.1
Depreciation and amortisation from non-acquired intangibles	9.0	7.0
Share based payment expense	0.8	1.6
Net working capital changes	(2.7)	(15.1)
Adjusted operating cash flows	**23.4**	**9.6**

Operating cash conversion reconciliation	**1H20**	**1H19**
Adjusted operating profit	16.3	16.1
Adjusted operating cash flows	23.4	9.6
Operating cash conversion	**144%**	**60%**

Adjusted effective tax rate	1H20	1H19
Tax charge	1.5	2.9
Exceptional tax credit	1.6	-
Tax on amortisation of acquired intangibles (note 7)	0.4	0.4
Tax on exceptional items (note 7)	0.3	0.4
Adjusted tax charge	**3.8**	**3.7**
Adjusted profit before tax	14.6	15.1
Adjusted effective tax rate	**26.0%**	**24.5%**

KPIs

KPIs are those key performance indicators used by management and the Board to monitor the success of the Group. These differ from the Group's alternative performance measures as they are measures that cannot necessarily be calculated from GAAP measures.

The KPIs, reviewed by the Board include revenue growth, gross margin (including language services gross margin), and Free Cash Flow. Free cash flow is defined as cash generated from operations after interest and tax costs, maintenance capital expenditure and capitalised research and development costs. Maintenance capital expenditure is the recurring level of capital expenditure required for the business in its current form to operate in medium term and excludes non-recurring investment in capitalised system and infrastructure costs.

Definitions of the Group's other KPIs are set out below:

- **Technology Annual Recurring Contract Value (ARCV):** Annual Recurring Contract Value (ARCV) is the amount of revenue recognised in the last month of the reporting period, annualised and generated from technology related subscription contracts (SaaS, hosting and support and maintenance) and term contracts.
- **Language Services Repeat Revenue Rate (RRR):** Current year Language Services revenue earned from prior year customers as a percentage of prior year Language Services revenue; the difference between RRR and total revenue is current year Language Services revenue from new customers.
- **Linguistic productive utilisation:** the percentage of productive time in-house linguists spent on billable work across the financial period

The strategic KPIs set out above have no direct reference to any GAAP measure and hence cannot be reconciled to the Group's financial statements. RRR and ARCV is an annualised measure of contracts at a point in time and hence cannot be reconciled to revenue recognised during the year.

Net cash comprises cash and cash equivalents and external borrowings. Net cash excludes lease liabilities.

Responsibility Statement by the Management Board

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

- the half year management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board

Adolfo Hernandez
Chief Executive Officer

Xenia Walters
Chief Financial Officer

11 August 2020

INDEPENDENT REVIEW REPORT TO SDL PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises of the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Reading

11 August 2020